

VZCZCXYZ0005
PP RUEHWEB

DE RUEHDG #3248/01 2861748
ZNR UUUUU ZZH
P 131748Z OCT 06
FM AMEMBASSY SANTO DOMINGO
TO RUEHC/SECSTATE WASHDC PRIORITY 6390
RUCPDO/USDOC WASHDC PRIORITY 1571
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE PRIORITY
RUEHBO/AMEMBASSY BOGOTA PRIORITY 1598
RUEHWN/AMEMBASSY BRIDGETOWN PRIORITY 1972
RUEHCV/AMEMBASSY CARACAS PRIORITY 0675
RUEHGE/AMEMBASSY GEORGETOWN PRIORITY 0899
RUEHKG/AMEMBASSY KINGSTON PRIORITY 2649
RUEHPU/AMEMBASSY PORT AU PRINCE PRIORITY 4359
RUEHSP/AMEMBASSY PORT OF SPAIN PRIORITY 1721

UNCLAS SANTO DOMINGO 003248

SIPDIS

SIPDIS

DEPT PASS TO WHA/EPSC CORNEILLE, EB/ESC/IEC IZZO, S/P
MANUEL,OES/STC PAMELA BATES

E.O. 12958: N/A
TAGS: [ECON](#) [PREL](#) [PGOV](#) [ENRG](#)
SUBJECT: BIOFUELS IN THE DOMINICAN REPUBLIC

REF: 06STATE 164558

¶1. (U) Summary. For 2006, the Dominican Republic is expected to spend close to 8 percent of its GDP on petroleum imports, similar to 2005. The government understands the need to diversify its fuel strategy to lower energy costs, especially in the electricity sector. Although a renewable energy bill was formulated in 2005 to attract investment for ethanol, biodiesel, and biogas plants, the bill never reached the floor of Congress and expired. The government has provided permits for the development of wind farms, but nothing concrete has come about regarding the construction of ethanol plants for the purpose of providing renewable energies. Biodiesel is being used for some government vehicles, but only on a pilot basis. End Summary.

CURRENT FUEL SITUATION

¶2. (U) For 2005, the Dominican Republic imported 46.5 million barrels of petroleum products at a cost of about USD 2.45 billion or about 8 percent of GDP. The overwhelming petroleum import is crude oil, which equates to 32 percent of total petroleum imports, followed by diesel (17 percent), liquid propane (16 percent), fuel oil (13 percent), and gasoline (11 percent), with derivatives accounting for the remainder. In 2005, the major exporters of petroleum products to the Dominican Republic were Venezuela (27 percent), Trinidad and Tobago (17 percent), Mexico (14 percent), Colombia (14 percent), and the United States (13 percent). The Dominican Republic consumes a little over 127,000 barrels of oil on a daily basis.

¶3. (SBU) Our analysis suggests that the high usage of diesel and propane are due to the electricity crisis and the government subsidies on liquid propane. Due to the frequent electricity blackouts, many homeowners and private businesses own diesel generators and run them during the blackouts, which can last hours on a daily basis. Liquid propane gas use has increased 15 percent from 2004 to 2005 primarily because of generous government subsidies. Although the subsidies were put in place to offset the high costs of cooking gas for low-income families, taxi, bus and other transport services along with private motorists have also taken advantage of this government handout and converted their vehicles to accept liquid propane.

14. (SBU) The electricity sector uses a variety of fuels to generate a daily average of 1800 MW and has an installed capacity of generating over 3500 MW. For 2005, the fuel sources for installed capacity and generating electricity in the Dominican Republic are as follows:

Percent of installed capacity by fuel type:

Bunker fuel	34
Diesel	24
Coal	10
Natural gas	17
Hydroelectric	15

Percent of generated electricity by fuel type:

Bunker fuel	46
Diesel	11
Coal	14
Natural gas	10
Hydroelectric	19

Due to the high price of fuel, available diesel powered generators were not used as much as other fueled generators. Cogentrix, a diesel powered 300 MW generator, is interested in converting to natural gas via the LNG plant at AES Dominicana.

15. (SBU) The transportation sector uses gasoline, liquid propane, and diesel. The majority of newer personally owned vehicles in the Dominican Republic are imported from the United States; engines are often constructed to U.S. standards and should be similarly adaptable to biofuels as are cars in the United States. However, strong Dominican government subsidies of liquid propane gas (LPG) have led many Dominicans to convert their vehicles to burn LPG rather than gasoline. Specifically taxis, buses and other public vehicles have quickly converted from either gasoline or diesel to liquid propane. In mid 2005, government reports estimated 40 percent of liquid propane users came from the transportation sector. By year-end, that number increased to 54 percent. The subsidy is becoming increasingly costly as more consumers switch to LPG use to take advantage of the subsidies, and the government is having a difficult time funding the rising cost of this subsidy. For 2006, the government budgeted USD 77 million in propane subsidies, but by mid-year it had already spent USD 84 million. In September 2006, members of the Inter Development Bank recommended the government to end its subsidy program due to the strain on the government budget. President Fernandez responded in a public forum, however, that the government would continue its subsidy program (with no end in sight). The issue is politically sensitive and President Fernandez has been unable to eliminate or even to seriously discuss elimination of this subsidy.

BIOFUELS

16. (U) In mid-2005 the Dominican Ministry of Industry and Commerce elaborated a general plan to encourage investment in the production of ethanol from sugarcane and biomass, with the aim of using a 5 percent ethanol blend in gasoline in the medium term, rising to 22 percent in the long term (ten years or more). Studies were conducted by its Department of Non-Conventional Energy, directed by engineer Daniel Rivas.

17. (U) Statistics and estimates offered by various planners and potential participants vary widely. The Ministry's plan called for attracting investors to plant 100,000 hectares of sugarcane, which could produce 1.5 million barrels of ethanol fuel annually. The Ministry's initial study had forecast the need for investment of USD 188.6 million over five years for the first phase of its own plan.

18. (U) The director of economic studies of the Catholic

University, Jose Luis Aleman, estimated sugarcane production at 100,000 hectares in 2005 and said that in 1975 the country had planted four times that amount.

¶9. (U) President of the Sugarcane-grower Cooperative (COOPCANA) Juan Antonio Japa asserted in March 2006 that Dominican sugar production had fallen since privatization from 14 million tons to 4.5 million tons. He estimated that 700,000 tons of cane went unharvested among his member growers.

¶10. (U) According to an October 11th study by the Dominican National Council on Competitiveness, the Dominican Republic has tremendous capacity to develop biodiesel. The study purports that the country annually generates 8.3 to 9.14 million gallons of organic oils that can be converted into biodiesel.

FOREIGN ASSISTANCE TO PROMOTE ETHANOL

¶11. (U) Brazilian Foreign Minister Celso Amorin visited Santo Domingo in June 2005 and offered technical assistance for installing an ethanol plant. During President Fernandez's visit to Bogota in November 2005, he and Colombian President Alvaro Uribe signed a number of agreements, including a provision for technical assistance and financing for ethanol production. Neither of these bilateral contacts has yet resulted in tangible assistance.

OPPORTUNITIES FOR BIOFUELS

¶12. (SBU) In early 2005, former managing director of the Central Bank Apollinaire Veloz told the DCM that he had been

doing studies for the Vicini family that forecast profitability for an operation in which new fields could be planted. However, in April 2006, Felipe Vicini, the plantation manager, said to emboff that the Dominican Government is not supporting their initiative to harvest sugarcane for ethanol production. Vicini suggested that the government derives substantial tax income from gasoline sales and has little incentive to support alternative fuel sources, (yet, other sources tell us that the government wants to use state-owned fallow lands to produce these crops for ethanol production).

¶13. (U) In June 2005 the papers carried word of a consortium of ALCOGROUP of Belgium and TOMSA Deastil of Spain, which had enlisted the support of the Federation of Small Producers of Sugar (FEDOCA) and the Sugar cane Producers' Cooperative (COOPCANA). This group was targeting the existing "ingenio" and fields at Guabatico, Monte Plata. They said that all studies had been prepared, including an environmental impact statement, and that the first phase would generate 15,000 direct jobs. Preparation time would be 14 months. News in March 2006 indicated that the investment would be USD 50 million. CEA director Enrique Martinez had not yet authorized the signature of the contract.

¶14. (U) The National Sugar Council (CEA) was in discussions with new firm Etanol Dominicana as of May 2006, concerning the use of the government-owned sugar plantations and mills at Consuelo, Boca Chica, and Quisqueya. The three state enterprises had debts to suppliers and workers of 300 million pesos (about USD 12 million) and the CEA was asking that Etanol Dominicana assume and renegotiate the amounts as part of the deal. Newspaper reports in September 2006 identified additional investors as Tecno DEAH (see below), Tall Oil, and the Swedish development fund SWEDFUND. Other reports mention Swiss investors rather than Swedish ones. On September 24, CEA director Enrique Martinez announced that studies would begin soon and that the project would be viable in 18 months.

¶15. (U) Local enterprise Tecno DEAH has actively lobbied for biofuels investment. Its technicians estimate that over a span of ten years, up to 260,000 jobs can be created by achieving plantations of 4,200,000 acres, with ethanol production of 1,350 million liters of ethanol annually, with commensurate savings in expenditures on fossil fuels. Techo DEAH has worked with the Spanish National Center for Renewable Energies (CENER).

¶16. (U) The non-profit Dominican Institute of Integral Development (IDDI) headed by David Luther and with technical direction by Omar Bros and Charles Frantz Flambert, has several biodiesel projects underway. Fr. Aleman of PUCMM speaks highly of Bros. IDDI is said to be working with Baylor University and with the UNDP. IDDI seeks to set up ethanol production in the zone of San Pedro de Macoris, using sugarcane and sorghum. It is also interested in oilseed production in the northern Montecristi region, bordering on Haiti, which could be set up over a period of three years.

LEGAL FRAMEWORK

¶17. (U) The General Electricity Act 125-01 provides preferential treatment for companies that generate electricity from renewable sources, if prices and conditions are identical. It also provides companies that generate electricity with renewable sources a five-year tax exemption. Presidential decree 139-03 allows import tax exemptions for solar panels and wind turbines.

¶18. (U) More recently, President Fernandez issued decree 566-05 on the allowable mixtures of fuels, using the authority of Law 2071 of 1949. He issued decree 608-05, creating a Commission to Review and Classify the Land of the Dominican Agrarian Institute and the National Sugar Council. In August 2005 the Fernandez administration sent to the opposition-dominated Congress a draft law, Developing Renewable Sources of Energy, proposing a special legal regime and providing the incentive of 10-year tax holidays for firms producing ethanol. Congress has not acted on this draft or any successor drafts.

¶19. (U) As of March 2006 the Ministry of Industry and Commerce had requested offers from firms interested in producing and selling ethanol.

EXPORT OPPORTUNITIES: PORTS, ROADS AND TRUCKING LINES

¶20. (U) The Dominican national port system consists of 11 international commercial ports and two fuel unloading stations near the capital, connected to the national refinery by pipeline, and near San Pedro de Macoris, which connects to Cogentrix' diesel plant. The ports range in depth from 29 to 48 feet. The Dominican Republic's road system is poorly maintained, the exception being the highway between Santo Domingo and the country's second largest city Santiago, located northwest of the capital. East-west highways have been under construction for years and are in various stages of completion and a private project to construct a toll highway from just east of Santo Domingo to the northeast corner of the country is expected to be complete sometime in ¶2007. Private petroleum companies doing business in the Dominican Republic rely on their own tanker trucks and services of about 20 contract services which operate tanker trucks.

INDUSTRIAL BASE

¶21. (U) Mexican-owned CEMEX is the largest cement producer in the Dominican Republic and provides product for roads and other construction projects. While there is a large pool of unskilled labor, including an abundant supply of Haitian immigrants, skilled workers and particularly those with a

strong background in engineering are much harder to come by. It is not uncommon for foreign companies initiating construction projects including roads to complain that they would be better off importing skilled workers from abroad, despite the high cost, than recruiting from the local market.

INSTITUTIONS

¶22. (U) The newly renamed Dominican Institute of Innovation in Industrial Biotechnology (IIBI) (formerly the Dominican Technology Institute, or INDOTEC) has been developing methods of production of biogas with algae, using a grant of one million Dominican pesos from the National Energy Commission. Lead researchers are Frank H. Richardson Santana and Juan Manuel Heredia.

¶23. (U) The National Energy Commission (CNE) has a section for alternative energies, headed by Doroteo Rodriguez. CNE vehicles are run on fuel produced by a demonstration project recycling used vegetable oils collected from hotels. The project is producing 500 gallons a day but has capacity for up to 2,500 per day.

¶24. (U) The Ministry of Industry and Commerce has an office that specifically deals with renewable energies.

POTENTIAL SETBACKS

¶25. (SBU) The Dominican Republic is a great cheerleader for new technologies and ways to reduce costs. Since the 1970's, each administration has boasted publicly that they will fix the electricity crisis, but blackouts are a daily occurrence still in 2006.

¶26. (SBU) Biofuels technology is well received in the Dominican Republic. Movement to build ethanol refineries has been slow but recently shows signs of progress. Issues that will stunt the growth of biofuels are continuing government subsidies on propane, the lack of a law that promotes renewable energies, and government incentives to use LNG, coal, and wind for electricity generation plants.

¶27. (U) An ethanol blend or biodiesel can be used in the transportation sector. If President Fernandez ends the subsidy program for liquid propane, the transportation sector, specifically public transportation, could have an immediate incentive to switch to ethanol blended gasoline given the relative real prices. In addition to public transportation, private owners would also welcome ethanol blended gasoline. Although private ownership of vehicles is not as high as it is in neighboring Puerto Rico, the lack of rail transit has created a vehicle dependent society in the Dominican Republic.

WATER ISSUE

¶28. (SBU) According to the Santo Domingo-based International Resources Group (IRG), the Dominican Republic is facing a water crisis in the eastern half of the island. From Santo Domingo to the eastern shores of Punta Cana, urban and hotel development is potentially outpacing the water supply. A new aqueduct is being built that stretches hundreds of miles to pump water into new hotel developments in the east. The product of increased development, increased water usage for hotel occupants and golf courses, and mass irrigation of sugarcane crops has already damaged the aquifers. IRG, who works closely with the Ministry of Environment, asserts that if the government increases sugarcane production for ethanol purposes, the damage to the aquifers could be irreversible and would force the Dominican Republic to build desalinization plants.

¶29. (SBU) IRG and other environmentalists agree that the government needs to pressure the resort industry to lower its water usage per occupant, as well as to develop more efficient irrigation systems for the agricultural sector.

COMMENT

¶30. (U) There would be a market for biofuels, primarily in the transportation sector, if the government were to stop subsidizing liquid propane. Although some ethanol and biodiesel projects are under discussion, the government needs to offer incentives to the industry to attract more concrete investment. A potential substitute for fossil-fueled generation is wind power. According to the Ministry of Industry and Commerce, the wind potential assessment estimates that wind-powered generation could produce up to 10,000 MW. Six wind-generation projects are currently in the development phase and their total installed capacity, once completed, would be about 450MW. End Comment.

¶31. (U) This report and extensive other material can be consulted on our SIPRNET site,
<http://www.state.sgov.gov/p/wha/santodomingo/>

¶32. (U) Drafted by Chris Davy.
BULLEN